

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

BAC1644 – PRINCIPLES OF FINANCE
(All sections / Groups)

26 MAY 2017
9.00 a.m-12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FOUR (4)** printed pages.
2. Answer **ALL** questions.
3. Marks are shown at the end of each question.

Question 1 (25 Marks)

a) Discuss the roles of financial manager in maximizing shareholders' wealth?

(5 marks)

b) You own a portfolio consisting of the securities listed below. The expected return for each security is as shown. What is the expected return on the portfolio?

Stock	Number of Shares	Price per Share	Expected Return
W	300	RM 11	8.9%
X	450	19	11.6%
Y	100	48	28.4%
Z	575	33	12.7%

(8 marks)

c) Given the following information, what is the expected return on a portfolio that is invested 30 percent in both Stocks A and C, and 40 percent in Stock B?

State of Economy	Probability of state of economy	Rate of Return if state occurs		
		Stock A (%)	Stock B (%)	Stock C (%)
Boom	0.05	7.8	23.6	18.4
Normal	0.85	9.1	15.4	13.7
Recession	0.1	11.8	-12.3	6.4

(12 marks)

Question 2 (25 Marks)

a) Explain the lifecycles of theory of dividend payments. How does it explain corporate dividend payments that are seen in the market?

(9 marks)

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b) In expanding your cupcakes manufacturing business that is currently selling for RM 4, you have requested your financial manager to forecasts for the demand and costs associated with the products. Forecast sales volumes are as follows:

Year	1	2	3	4
Demand	700	160	210	300
Variable cost (RM per box)	2	3	3	3.5
Total fixed costs (RM)	100	180	280	380

The production equipment for the new confectionery line would cost RM2000 and an additional initial investment of RM750 would be needed for working capital. Capital allowances (tax-allowable depreciation) on a 25% reducing balance basis could be claimed on the cost of equipment. Profit tax of 30% per year will be payable one year in arrears. A balancing allowance would be claimed in the fourth year of operation. The average general level of inflation is expected to be 3% per year and selling price, variable costs, fixed costs and working capital would all experience inflation of this level (nominal after-tax cost of capital is 12%).

Required:

Assuming that production only lasts for four years, calculate the net present value of investing in the new product using a nominal terms approach and advice on its financial acceptability.

(16 marks)

Question 3 (20 Marks)

a) You are given the following information concerning Around Town Tours: Debt: 8,500, 7.1 percent coupon bonds outstanding, with 14 years to maturity and a quoted price of 102.6. These bonds pay interest semiannually. Common stock: 265,000 shares of common stock selling for RM 76 per share. The stock has a beta of 0.92 and will pay a dividend of RM 2.48 next year. The dividend is expected to grow by 4 percent per year indefinitely. Preferred stock: 7,500 shares of 6 percent preferred stock selling at RM 88 per share. Market: A 13.2 percent expected return, a 4.5 percent risk-free rate, and a 34 percent tax rate. Calculate the WACC for this firm.

(12 marks)

Continued...

b) Iris corporation has been growing at a phenomenal rate of 30 percent per year because of its rapid expansion and explosive sales. You believe this growth rate will last for three years more and will then drop to 10 percent per year. The growth rate then remains at 10 percent indefinitely. Total dividends that have been just paid were RM5million, and the required return is 20 percent. What is the total value of the stock?

(8 marks)

c) Explain why some bonds sell at a premium over par value while other bonds sell at discounts. What do you know about the relationship between coupon rate and the yield to maturity (YTM) for premium bonds, discounts and at par value bonds?

(5 marks)

Question 4 (20 Marks)

a) The Cannon Ball has projected its first quarter sales at RM11,200, second quarter sales at RM10,900, and third quarter sales at RM13,300. The firm's cost of goods sold is equal to 71 percent of the next quarter's sales. The accounts receivable period is 30 days and the accounts payable period is 60 days. At the beginning of the first quarter, the firm has an accounts receivable balance of RM2,800 and an accounts payable balance of RM6,300. The firm pays RM1,500 a month in cash expenses and RM200 a month in taxes. At the beginning of the first quarter, the cash balance is RM530 and the short-term loan balance is zero. During the first quarter, the firm is planning on spending RM2,600 for some new equipment. The firm maintains a minimum cash balance of RM20. Assume each month has 30 days. What is the cumulative cash surplus (deficit) at the end of the first quarter, prior to any short-term borrowing?

(8 marks)

b)

Item	Beginning	Ending
Inventory	RM 10,407	RM10,822
Account Receivable	6,840	7,301
Account Payable	7,221	6,948
Net sales	RM146,400	
Cost of goods sold	RM 82,500	

Consider the following financial statement information for Assume all sales are on credit. How long is the cash cycle?

(8 marks)

Continued...

c)

The following are the sales budget for ABC Corporation for first quarter 2017:

	January	February	March
Sales Budget	RM 136,000	RM148,000	RM 153,000

Credit sales are collected as follows:

- 60 percent in the month of sale
- 32 percent in the month after the sale
- 8 percent in the second month after the sale

The accounts receivable balance at the end of the previous quarter was RM 87,040 (RM73,600 of which was uncollected December sales). How much did the firm collect in the month of February?

(4 marks)

d) Discuss the differences between secured and unsecured loans.

(5 marks)

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